Interprovincial Pipe Line Limited

Annual Report 1976

Highlights

Financial

	1976	1975	Percentage Increase (Decrease)
Transportation revenue	$196,712,000	$194,715,000	1%
Deficiency Agreement	$ 20,209,000	$ —	
Other income	$ 3,725,000	$ 2,300,000	
Expenses, excluding taxes	$128,449,000	$102,203,000	26%
Income and other taxes	$ 53,082,000	$ 55,911,000	(5%)
Earnings	$ 39,115,000	$ 38,901,000	1%
per share	$1.53	$1.52	
Dividends	$ 30,688,000	$ 30,688,000	
per share	$1.20	$1.20	
Capital expenditures	$113,587,000	$151,202,000	

Statistical

Deliveries (barrels per day)			
By Quarters			
First	1,090,810	1,165,531	
Second	1,130,025	1,063,050	
Third	1,189,006	1,207,079	
Fourth	1,323,171	1,204,194	
Yearly average	1,183,651	1,160,198	2%
Highest month	1,447,576	1,289,107	
Lowest month	1,056,495	956,929	
Barrels delivered	433,216,000	423,472,000	
Barrel miles (millions)	579,436	581,850	(.4%)
Number of employees—December 31	790	755	

Directors' Report to Shareholders:

The operating results for the year 1976 were about as expected. Total throughput of 433.2 million barrels of crude oil, natural gas liquids and refined products, equivalent to 1,183,651 barrels per day, was slightly higher than in 1975, as were earnings at $1.53 per share.

Deliveries of Western Canadian crude oil in Montreal through the newly constructed 517 mile 30-inch extension from Sarnia commenced in June and gradually increased to the planned level of 250,000 b/d in December. The extension did not contribute to earnings, however, due to the Federal Government's decision to equate the price of Canadian crude in Montreal to Toronto by means of the Deficiency Agreement rather than by means of the Oil Import Compensation Program, until such time as the National Energy Board has ruled on the just and reasonableness of our tariffs.

This was accomplished by the National Energy Board requiring us to post the same rates to Montreal as to Toronto. The tariff that was collected from the shippers for transporting oil beyond Sarnia to Montreal, therefore, was only 5¢ a barrel and the Federal Government is required to pay us the difference between the actual cost of operating the extension, including depreciation and interest, and the revenue that the 5¢ per barrel produced. As shown in the financial statements, the payment in respect of 1976 amounts to $20.2 million.

The company has again proposed that an additive of 61.5¢ per barrel from Sarnia be allowed commencing February 1, 1977 but the National Energy Board has approved only 20¢ effective March 1, 1977, also until such time as it has ruled on our tariffs. This means another substantial deficiency payment on the part of the Federal Government in respect of 1977.

As shown in the table on page 7, shipments of Canadian crude to the United States continued to decline in 1976. Until the Montreal Extension was in operation, total authorized exports were at the rate of 510,000 b/d and by November, when throughput in the line was expected to reach the 250,000 b/d level, they had been gradually reduced to 385,000 b/d.

In October the National Energy Board held further hearings on the question of "Canadian Oil Supply and Requirements". While their next report is not expected before April, some changes in the export program are already apparent. Producers of heavy crude oil have argued that a market for heavy crude does not exist in Canada and that an assured export market is required for an orderly development of their production. The National Energy Board appears to be responding by licencing a sizeable volume of heavy crude for export. Thus, for the first months of 1977, authorized exports of all types of crude are totalling 315,000 b/d rather than the predicted 252,000 b/d.

In the United States, the Federal Energy Administration has classified refineries according to their dependence on Cana-

Lowering in 30″ pipe under winter conditions.

---- Proposed Kitimat Pipe Line Ltd.
—— Trans Mountain Pipe Line Company Ltd.

dian crude, with those most dependent on Canadian crude having first claim on the first 264,000 b/d of exports from Canada. Of the eleven refineries or utilities comprising the Federal Energy Administration's priority, Interprovincial serves seven representing approximately 78% of the declining exports.

"Exchanges" with Ontario and Montreal refineries are also being arranged by some of the Northern Tier refineries. In these exchanges, Canadian production is delivered to a Northern Tier refinery in exchange for an equal volume of crude delivered to Lakehead at Chicago for transport to Ontario or Montreal. These exchanges amounted to only 7,000 b/d in 1976 but already in 1977 they are up to 40,000 b/d. At the present time, the major constraining factor is the pipe line capacity into Chicago.

As regards the Montreal Extension, extremely wet weather continued to plague the project with the result that while the line was placed in operation in June, it was not possible to complete all the land restoration and clean-up work in 1976. A further complication was that the internal inspection device run through the line after it had been pressure tested and placed in operation revealed some three hundred indications of indentations and other minor construction damage. These are all being excavated and examined by company personnel and repaired where required. The result of all this is that the capital cost of the line is now estimated at $247 million.

The company is one of six participants in Kitimat Pipe Line Ltd., which applied to the National Energy Board in December to construct a 760 mile 30-inch pipe line from Kitimat, British Columbia to Edmonton, Alberta where it would connect with the Interprovincial/Lakehead pipe line system. An application was also made to the Ministry of Transport to construct a tanker unloading terminal at Kitimat.

The project was initiated by two of the Northern Tier refiners that are losing their supply of Canadian crude and is of considerable significance to Interprovincial. The capital cost is estimated at $500 million and the earliest the line could be in operation would be mid 1979. Much of the oil transported by the line would likely be Alaskan crude but the economics of large tankers from the Middle East and Indonesia are also encouraging.

Interprovincial continues as one of five equal partners in Beaufort-Delta Oil Project Limited. The work of this company has recently been suspended until such time as sufficient oil has been discovered in the Mackenzie River Delta—Beaufort Sea area to justify the construction of a pipe line. At this point it would appear that the area is more prone to natural gas than oil. The cost of the project to the company has been $354,000 in 1975 and $710,000 in 1976.

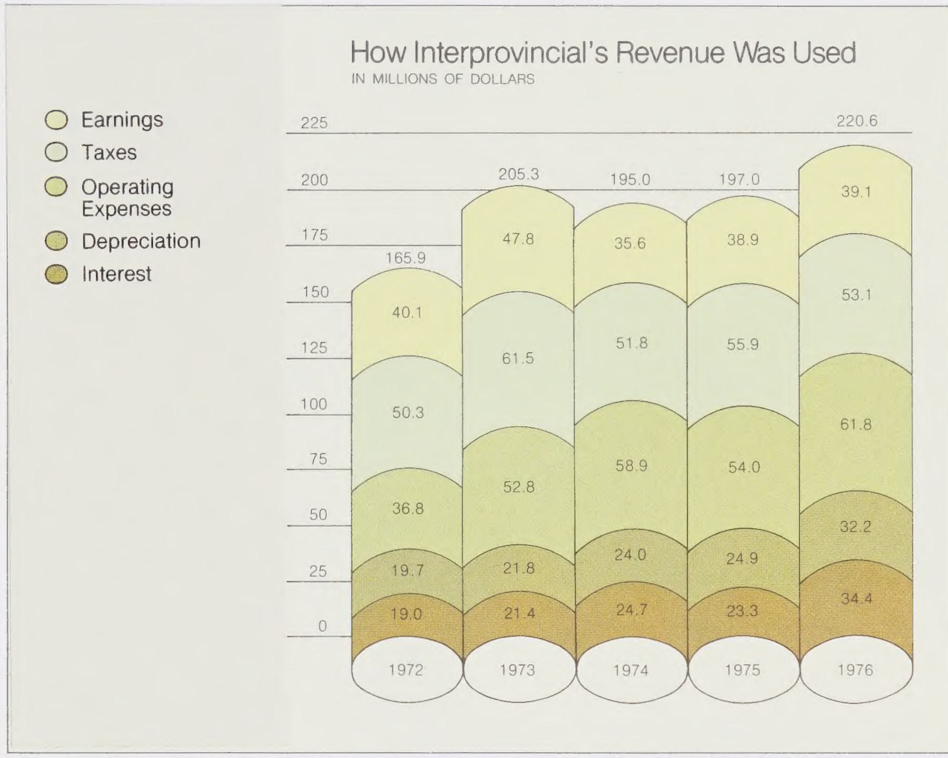
Also of significance, is the decision made late in December to abandon plans to construct a refined products terminal at Superior, Wisconsin. Land acquisition and other preliminary work on this project was started in 1973 on the assumption that the stringent environmental requirements of both the State of Wisconsin and the U.S. Army Corps of Engineers had been, or could be, satisfied. The necessary clearance from the U.S. Army Corps of Engineers for the dock and loading facilities was slow in forthcoming, however, and the two shippers who were planning on using the facilities have now made other arrangements. Some of the $5.3 million expended by Lakehead on specialized tankage, other materials and various feasibility studies will have to be written off but this has been deferred until 1977 pending disposal of the tankage and other materials and finalizing negotiations with the two shippers. On February 7, 1977 the Corps of Engineers announced that it was denying Lakehead the necessary permit.

Rate Hearing

The first phase of our rate hearing before the National Energy Board commenced on September 21 and concluded on October 13 with the Board finding that there should be a change in the method of regulating Interprovincial's tolls and tariffs—and that the method should be the "rate base—rate of return" methodology based on historical costs. The Board further concluded that the tariff for the Sarnia to Montreal extension should be on an "add on" basis as distinct from "rolled in".

In our Submission filed in December 1975, we had proposed that the Board continue to allow us the flexibility as to rates that it had permitted in the past—within established guidelines—and only be prepared to intervene if there is a bona fide complaint against our rates. In short, similar to the type of regulation the Interstate Commerce Commission exercises over interstate oil pipe lines in the United States, including Lakehead. It is disappointing therefore that the National Energy Board has chosen the "rate base—rate of return" approach, even though none of our shippers questioned our tariffs. The National Energy Board is only charged with satisfying itself that our rates in Canada are just and reasonable and that we do not unjustly discriminate against any person or locality.

The next phase of the hearing, which is to establish the rate base, cost of service, and rate of return, commenced on December 6 and adjourned on December 15 to allow time to prepare the additional information required of us. Then after resuming on January 31, 1977 to consider the rate of return evidence, the hearing was further adjourned until certain other evidence has been filed.



Financial Review

The Consolidated Financial Statements and the Notes appearing on pages 12 through 21 include the accounts of Interprovincial Pipe Line Limited and its subsidiaries, all of which are wholly-owned. These are Lakehead Pipe Line Company, Inc., which owns and operates the portion of the pipe line system in the United States and its subsidiary, Pipe Line Service Company Inc., which owns and operates the aircraft and radio communication system in the United States. Interprovincial Pipe Line Patrol Company Limited, which is a wholly-owned subsidiary of Interprovincial Pipe Line Limited, and has been inactive since 1954, surrendered its charter on December 15, 1976.

Income and Expenses

Deliveries in 1976 were some 2% higher than the previous year due to the Montreal Extension being placed in operation in June and increased receipts of U.S. domestic and offshore crude for U.S. refineries as exports of Canadian crude to the United States were reduced. Total barrel miles were slightly less than in 1975, however. The net result was a 1% increase in transportation revenue, excluding the $20.2 million deficiency payment due from the Federal Government in respect of the Montreal Extension.

Other income at $3.7 million was $1.4 million higher than in 1975 because of larger amounts invested in the short term money market and higher profit on long term debt reacquired for sinking fund purposes.

In spite of slightly lower barrel miles, power and fuel costs in 1976 at $30.9 million were 12% higher than in 1975. Most of the $3.4 million increase was due to higher unit power costs. Power rates increased an average of 21% in Canada and 6% in the United States. Other operating expenses were $5.4 million higher than in 1975, of which increased salaries and benefits accounted for $2.4 million.

Ditching parallel to TransCanada right-of-way in fall of 1975.
Right-of-way after a snow storm.

In Canada, property and other taxes wer $900,000 higher than in 1975 of whic $600,000 resulted from increased mi rates and $260,000 higher provincial capi tal taxes. Property and other taxes in Lake head were lower by $800,000 mainly as result of an over-provision in 1975 fo property taxes in Minnesota and Indiana Depreciation and interest charges were higher by $7.3 million and $11.1 millio respectively, largely as a result of the Mon treal Extension. Income taxes for 197 were lower by $2.9 million due to reduce taxable income, expiration of the 10 Canadian Corporate Surtax in April 1975 and a 1% reduction in the Canadian federa tax rate for 1976.

Earnings and Dividends

Earnings for the year were slightly highe than in 1975 at $39.1 million. Earnings pe share were $1.53 compared with $1.52 i the previous year.

Dividends of $1.20 per share totalled $30. million and represented 78% of 1976 earn ings. The quarterly dividend rate of 30¢ pe share (25.5¢ on Class B shares—refe Note 7 to Financial Statements) ha remained the same since 1974.

New Financing

To provide additional funds for the Mon treal Extension, on February 2, 197 Interprovincial sold $25 million 9⅞% Seria Debentures Series E to mature $5 millio annually February 1, 1977 to February 1 1981 at par and $75 million 10⅞% Sinkin Fund Debentures Series E to mature Feb ruary 1, 1996 at par.

To finance the balance of the requirement of the Montreal Extension a further $50 mil lion debenture issue will likely be under taken before the end of April 1977.

Tariffs

Interprovincial and Lakehead are engage exclusively in the transportation of crud oil, natural gas liquids and refined petro leum products by pipe line at establishe tariffs. With the exception of Buffalo an

Removing ice and water from ditch.

Montreal, tariffs remained unchanged throughout the year. The rates to Buffalo were increased by 4¢ per barrel.

Rates from the three main receiving points to the principal delivery points are now as follows:

	Rates for light crudes in cents per barrel		
	From		
To	Edmonton	Cromer	Chicago
Regina	18.7¢	— ¢	— ¢
Gretna	27.8	10.3	—
Clearbrook	33.5	20.0	—
Superior	39.5	26.0	—
Chicago	52.0	38.5	—
Sarnia	55.0	41.5	14.0
Toronto area	60.0	46.5	19.0
Buffalo	67.0	53.5	26.0
*Montreal	75.0	61.5	34.0

*Effective March 1977

The rates for heavier crudes, natural gas liquids and refined products are slightly higher.

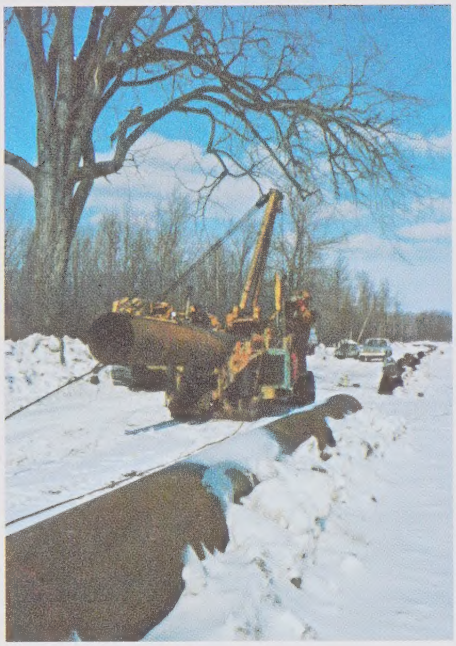
Operations

The total volumes of crude oil and other liquid hydrocarbons received and delivered by the pipe line system during the year were as follows:

Receipts—by location (thousands of barrels per day)	1976	1975
Alberta	873.2	924.1
Saskatchewan	146.0	148.1
Manitoba	11.2	12.2
Ontario	1.6	1.6
United States	166.7	76.4
	1,198.7	1,162.4

Deliveries—by location (thousands of barrels per day)	1976	1975
Canada		
Canadian Production		
Prairie Provinces	123.5	137.4
Ontario	521.2	510.2
Montreal	83.1	—
	727.8	647.6
U.S. Domestic		
Ontario	6.4	—
Montreal	.6	—
	7.0	—
United States		
Canadian Production		
Minnesota-Wisconsin	171.9	166.3
Illinois-Indiana	25.0	81.8
Michigan-Ohio	72.5	116.6
New York-Pennsylvania	21.8	71.6
	291.2	436.3
U.S. Domestic and Offshore Oil		
Minnesota-Wisconsin	.1	—
Michigan-Ohio	48.3	24.7
New York-Pennsylvania	109.3	51.6
	157.7	76.3
	1,183.7	1,160.2

Deliveries—by type (thousands of barrels per day)	1976	1975
CRUDE OIL		
Conventional	943.9	946.3
Oil Sands	38.1	37.1
NATURAL GAS LIQUIDS		
Condensate	68.2	83.1
Propane/butane/condensate mix	72.4	59.0
REFINED PRODUCTS	61.1	34.7
	1,183.7	1,160.2



Pipe bending machine.

Installation of creek crossing in Quebec.

Construction

1976 Review

Capital expenditures for the year totalled \$114 million of which \$95 million was expended on the Sarnia to Montreal extension. The major new project in 1976 was the installation of 69 miles of 30-inch pipe in the form of seven loops on the Chicago to Sarnia section of the system. These loops, together with the installation of four 2,500 horsepower electric pumping units at existing stations, increased the light crude capacity of this section by 125,000 b/d to 740,000 b/d. Due partially to favourable weather, the final cost of these projects will be \$19 million some \$7 million less than the original estimate.

It had been planned to transport all the heavy (more viscous) crudes out of Superior in the North Line via the Straits of Mackinac. However, with heavy crude required in the Chicago area, these crudes are all being transported in the southern line, thereby increasing the previously stated capacity of the northern line from 450,000 b/d to 555,000 b/d ex-Lewiston, Michigan, and reducing the capacity of the 34" line from Superior to Chicago from 855,000 b/d to 740,000 b/d and the capacity of the looped 30" line from Chicago to Sarnia from 740,000 b/d to 630,000 b/d.

The replacement of six 20-year old 2,000 h.p. diesel pumping units, three each at Viking, Minnesota and Saxon, Wisconsin with electric pumping units is close to completion and the new units should be operational by mid-1977.

Two existing 2,500 h.p. electric pumping units at Milden and Craik, Saskatchewan were transferred from Line 3 operation to Line 1 operation to increase the capacity of Line 1 by 5,000 b/d to transport increasing volumes of natural gas liquids and refined products.

The upgrading of Line 2 between Edmonton and Superior to accommodate part of the high vapour pressure natural gas liquids continues to be deferred pending finalization of the National Energy Board regulations.

1977 Forecast

To meet the forecast increase in demand in Ontario and Buffalo, the capacity of the Chicago to Sarnia section of the system will be further increased from 630,000 b/d to 710,000 b/d by the addition of one 2,500 horsepower electric pumping unit at each of seven new intermediate locations. The pumping units will be transferred from existing locations between Superior and Chicago where they are not presently required. The estimated cost is \$4.8 million.

Completed creek crossing in Ontario.

Also planned for 1977 is the replacement of eight old 900 h.p. diesel pumping units at Glenavon, Saskatchewan and Viking, Minnesota with electric pumping units. One 1,500 h.p. electric pumping unit will be installed at Glenavon and two at Viking. The total cost is estimated to be $2.3 million.

Funds have also been provided for the conversion of two cone roof tanks to floating roofs, at an estimated cost of $460,000.

Capital expenditures for the year are estimated to be $13.5 million.

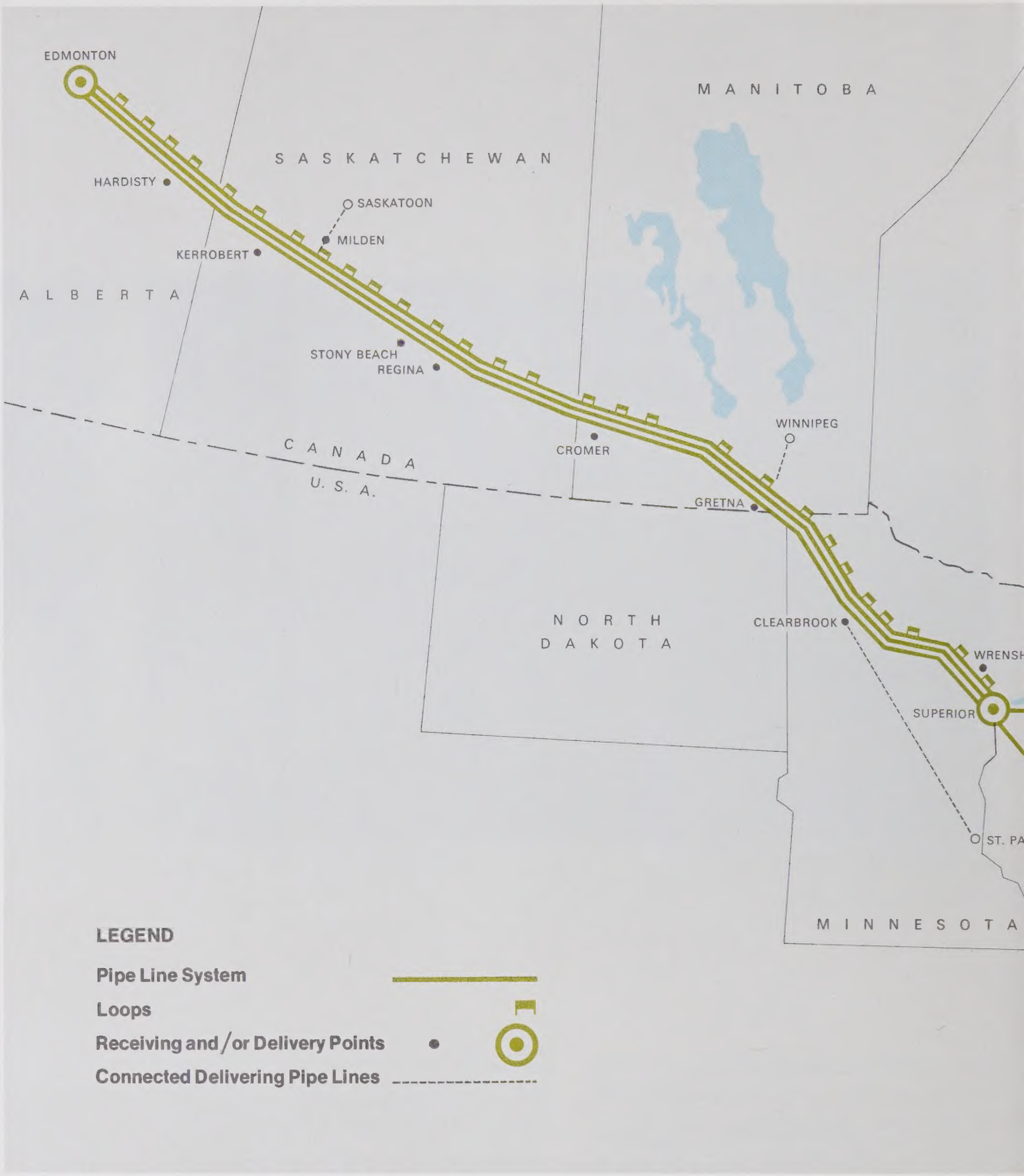
Depending on the completion date of the new 95,000 b/d refinery presently under construction at Nanticoke, Ontario, construction of the proposed connecting line from a point on the Buffalo extension downstream from Westover may also be undertaken in 1977. To power this line one additional 2,000 h.p. electric pumping unit will be required at Westover. The total cost is presently estimated at $5.5 million which would be in addition to the $13.5 million stated above.

General

The Directors and Management once again welcome this opportunity of complimenting all employees for the high level of performance maintained throughout the year, often under difficult circumstances.

On behalf of the Board of Directors

President



INTERPROVINCIAL PIPE LINE LIMITED

and its United States Subsidiary

LAKEHEAD PIPE LINE COMPANY, INC.

The Pipe Line Transportation System

as at December 31, 1976

	Canada	United States	Total
Miles of Right-of-Way	1,391	1,739	3,130
Number of Pumping Stations	32	42	74
Installed Horsepower—diesel	37,920	60,920	98,840
—electric	508,770	410,500	919,270
—total	546,690	471,420	1,018,110
Line Fill in Barrels (provided by shippers)	13,736,000	11,921,000	25,657,000
Separate Streams Transported			48

Annual Average Physical Capacity

Line Section	Thousands of Barrels per Day 1977	1978
Edmonton-Regina	1,533	1,533
Regina-Cromer	1,466	1,466
Cromer-Superior	1,560	1,560
Superior-Sarnia via Straits of Mackinac	*555	555
Superior-Chicago	*740	740
Chicago-Sarnia	*630	710
Sarnia-Port Credit	470	470
Westover-Buffalo	160	160
Sarnia-Montreal	350	350

*Changed due to reassignment of heavy crudes. See Page 8.

Miles of Main Line Pipe

Size	Canada	United States	Total
12 inch	66	26	92
16	397	—	397
18	39	325	364
20	800	12	812
24	772	—	772
26	2	325	327
30	531	989	1,520
34	774	789	1,563
48	224	106	330
Total Miles of Main Line Pipe	3,605	2,572	6,177

Tankage: (thousands of barrels)

	Number of tanks	Capacity
Edmonton	27	4,645
Stony Beach	3	66
Regina	8	580
Cromer	14	1,006
Gretna	5	280
Clearbrook	7	474
Superior	22	4,584
Griffith	8	1,985
Sarnia	15	2,250
Westover	4	376
	113	16,246

Consolidated Statement of Earnings

(in thousands of dollars except per share amounts)

	Year ended December 31	
	1976	1975
Income:		
Transportation revenue	**$196,712**	$194,715
Montreal Extension Deficiency Agreement (Note 3)	**20,209**	—
Other income	**3,725**	2,300
	220,646	197,015
Expenses: (Note 1)		
Operating—power and fuel	**30,902**	27,550
—other	**31,797**	26,376
Property and other taxes	**12,675**	12,588
Provision for depreciation	**32,224**	24,889
Interest on long term debt	**34,399**	23,273
Foreign exchange	**(873)**	115
	141,124	114,791
Earnings before income taxes	**79,522**	82,224
Provision for income taxes: (Note 1)		
Current	**24,400**	28,723
Deferred	**15,168**	14,572
Deferred investment tax credits	**839**	28
	40,407	43,323
Earnings for the year	**$ 39,115**	$ 38,901
Earnings per share (Note 1)	**$ 1.53**	$ 1.52

Consolidated Statement of Retained Earnings

(in thousands of dollars except per share amount)

	Year ended December 31	
	1976	1975
Balance at beginning of year	**$136,366**	$128,153
Earnings for the year	**39,115**	38,901
	175,481	167,054
Dividends paid—($1.20 per share) (Note 8)	**30,688**	30,688
Balance at end of year	**$144,793**	$136,366

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year ended December 31	
	1976	1975
Source of Funds:		
Earnings for the year	**$ 39,115**	$ 38,901
Add—Charges to earnings not affecting working capital:		
Depreciation	**32,224**	24,889
Deferred income taxes	**15,168**	14,572
Deferred investment tax credits	**839**	28
Other	**530**	469
Provided from operations	**87,876**	78,859
Long term debt:		
Interprovincial Pipe Line Limited		
Bank loans	**39,400**	23,500
Debentures	**100,000**	100,000
Return of rights-of-way deposits	**488**	(1,449)
Other transactions	**96**	301
	227,860	201,211
Use of Funds:		
Dividends	**30,688**	30,688
Additions to pipe line transportation system	**113,587**	151,202
Long term debt retired or included in current liabilities	**48,129**	23,466
Cost of issuing long term debt	**1,382**	1,735
	193,786	207,091
Change in Working Capital	**34,074**	(5,880)
Working Capital (Deficit) at Beginning of Year	**(22,575)**	(16,695)
Working Capital (Deficit) at End of Year	**$ 11,499**	$ (22,575)

Consolidated Balance Sheet

(in thousands of dollars)

ASSETS

	December 31 1976	1975
Current Assets:		
Cash	**$ 473**	$ 903
Term deposits with Canadian chartered banks	**11,505**	984
Short term investments, at cost which is equivalent to market	**4,953**	14,999
Accounts receivable—		
Transportation charges	**18,546**	18,335
Montreal Extension Deficiency Agreement (Note 3)	**20,209**	—
Other	**1,098**	1,381
Inventories—		
Crude oil, at quoted market price	**179**	761
Materials and supplies, at cost	**5,148**	5,336
Prepaid expenses	**684**	841
	62,795	43,540
Deferred Charges and Other Assets:		
Unamortized discount and expense on long term debt (Note 1)	**5,844**	5,012
Deposits for acquisition of rights-of-way	**961**	1,449
Other (Note 4)	**6,384**	542
	13,189	7,003
Pipe Line Transportation System, at cost (Notes 1 and 5)	**1,085,984**	978,725
Less—Accumulated depreciation	**299,236**	267,427
	786,748	711,298
	$ 862,732	$761,841

The financial statements have been approved by the Board:

W. H. REA, *Director*

D. G. WALDON, *Director*

LIABILITIES

	December 31 1976	December 31 1975
Current Liabilities:		
Accounts payable	**$ 11,998**	$ 27,709
Interest accrued	**12,740**	8,332
Income and other taxes	**12,370**	15,750
Current portion of long term debt	**14,188**	14,324
	51,296	66,115
Long Term Debt (Note 6)	**487,859**	396,588
Deferred Income Taxes (Note 1)	**119,111**	103,943
Deferred Investment Tax Credits (Note 1)	**11,798**	10,959

SHAREHOLDERS' EQUITY

	1976	1975
Capital Stock: (Note 7)		
Authorized—$200,000,000 divided into:		
100,000,000 Class A convertible common shares, par value $1 each		
100,000,000 Class B convertible common shares, par value $1 each		
Issued—24,528,169 Class A shares (1975—25,573,335)	**24,528**	25,573
— 1,045,461 Class B shares	**1,045**	—
Contributed Surplus—premium on shares	**22,302**	22,297
Retained Earnings (Notes 1 and 8)	**144,793**	136,366
	192,668	184,236
	$862,732	$761,841

Auditors' Report

To the Shareholders of
INTERPROVINCIAL PIPE LINE LIMITED:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty relating to the Superior refined products terminal described in Note 4 been known, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 4, 1977

PRICE WATERHOUSE & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned United States subsidiary Lakehead Pipe Line Company, Inc. and its subsidiary, Pipe Line Service Company, Inc.

Earnings of Lakehead are subject to a 15% U.S. withholding tax when paid as dividends to Interprovincial. It has not been considered necessary to provide for this tax on retained earnings of $57,692,000 U.S. of Lakehead at December 31, 1976 because they have been reinvested in that company.

Foreign Exchange

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net gains or losses arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Foreign exchange.

Discount and Expense on Long Term Debt

The balance of unamortized discount and expense is being amortized on the straight-line method over the life of the debt with adjustments as debt is retired. Amortization charged to earnings amounted to $479,000 in 1976 and $330,000 in 1975.

Pipe Line Transportation System and Depreciation

Expenditures for system expansion and major renewals and betterments are capitalized whereas maintenance and repair costs are charged to operating expenses as incurred.

The companies capitalize interest during the construction period on funds borrowed for additions to the pipe line transportation system. This amounted to $7,327,000 in 1976 and $4,627,000 in 1975.

The companies provide for depreciation of fixed assets, excluding the Sarnia to Montreal pipe line extension, on the straight-line method at annual rates which will amortize the cost of depreciable properties over their estimated service lives after taking into account possible salvage values. The rate of depreciation on these facilities averages approximately 3%.

In accordance with terms of the Deficiency Agreement with the Canadian Government (Note 3), commencing June 3, 1976 Interprovincial is providing for depreciation of all Montreal Extension depreciable facilities on a 20-year straight-line basis.

When fixed assets are retired or otherwise disposed of, the cost and accumulated depreciation are cleared from the related accounts and any resultant profit or loss is credited or charged to accumulated depreciation, except for unusual disposals for which the profit or loss is included in earnings.

Deferred Income Taxes

Under Canadian and United States income tax regulations depreciation deducted for tax purposes may differ from the amount recorded in the accounts; also, during construction periods interest capitalized and, in the United States, sales taxes capitalized, may be claimed for tax purposes in the year incurred. The companies are using the maximum deductions permitted for tax purposes which result in deferment of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

Deferred Investment Tax Credits

The United States subsidiary companies are allowed credits against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service. These credits have been deferred and are being taken into earnings over the life of the related assets.

Earnings per Share

Earnings per share are computed on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the stock options had been exercised during the year.

Pension Plans

Interprovincial and Lakehead have pension plans which cover substantially all employees. The principal amount of the unfunded liability for past service benefits, including experience deficiencies, was approximately $9,300,000 at December 31, 1975. This amount, together with interest, will be charged to earnings in varying annual installments to 1991. The companies fund accrued pension costs. In the years 1976 and 1975 total costs of the plans amounted to $2,260,000 and $1,857,000 respectively, of which $1,140,000 and $872,000 were applicable to past service benefits. At December 31, 1975 pension fund assets of the Interprovincial plan exceeded the actuarially computed value of the vested portion of the benefits by $702,000 and the vested portion of the benefits of the Lakehead plan exceeded the pension fund assets by $646,000.

2. Regulation:

Interprovincial and Lakehead own and operate a pipe line system for the transportation of crude oil and other liquid hydrocarbons.

Interprovincial operates the Canadian section of the system under provisions of the National Energy Board Act. The National Energy Board has regulatory authority over such matters as construction, operations, accounting and rates.

Interprovincial is in the second phase of a three-phase public hearing before the NEB to determine the justness and reasonableness of its tariffs and tolls. Following completion of the first phase, on November 5, 1976 the NEB ordered that the method of regulating Interprovincial's tolls and tariffs should change, that a historic cost rate base and rate of return methodology is the appropriate means of regulation, and that tolls and tariffs for the Montreal Extension will be established on an additive basis. The second phase of the hearing relates to determination of the rate base, cost of service and rate of return. Phase three relates to determination of rate design, tolls and tariffs. The effect on future earnings resulting from this method of regulation is uncertain.

Lakehead operates the United States section of the system as a common carrier under the Interstate Commerce Act. The Interstate Commerce Commission has regulatory authority over the rates, regulations, accounting and other practices of common carrier oil pipe lines.

3. Montreal Extension Deficiency Agreement:

On April 8, 1975 Interprovincial entered into a Deficiency Agreement with the Canadian Government whereby the Government will pay the deficiency if operating revenue in respect of the Extension is not sufficient to meet the fixed and variable costs of the Extension. On March 9, 1976 the Government announced a policy that "as an interim measure pending the National Energy Board's determination of just and reasonable tolls on Interprovincial's system, Montreal refineries should have access to Canadian crude at the same cost as plants in the Toronto area". The NEB ordered Interprovincial to file an interim tariff which would have regard for the Government decision to utilize the Deficiency Agreement to subsidize the cost of transportation beyond Toronto. For the period ended December 31, 1976 compliance with this order has resulted in a $20,209,000 deficiency which will be submitted to the Minister of Energy, Mines and Resources for approval and payment.

The Agreement provides for the granting to the Government of an option to purchase the Extension at its capital cost less depreciation, plus related expenses but this option is exercisable only if a deficiency payment has been made or it is agreed that a deficiency will occur. On March 22, 1976 the Government confirmed that they do not intend to exercise the option to purchase the Montreal Extension as a result of any deficiency created by Interprovincial's compliance filing of the interim tariff pending the NEB's determination of just and reasonable tolls on Interprovincial's system.

4. Superior Refined Products Terminal:

At December 31, 1976 the construction by Lakehead of a refined products terminal at Superior, Wisconsin, originally scheduled for 1974, had not received environmental clearance from the U.S. Army Corps of Engineers. Due to the extensive delay and other factors, Imperial Oil Limited and Gulf Oil Canada Limited, the two shippers who had expressed their intent to use the facilities advised in December 1976 that they are no longer interested in the project. Therefore, the project has been abandoned and costs amounting to $5,273,000 incurred for specialized tankage, other materials and various feasibility and environmental studies are recorded as Other assets pending disposal of the materials and finalization of negotiations with the two shippers as to their responsibility for the costs of abandonment. At December 31, 1976 the loss to be incurred by Lakehead cannot be reasonably estimated and accordingly no provision for loss has been made in the financial statements.

5. Pipe Line Transportation System: Accumulated Depreciation:

The pipe line transportation system and accumulated depreciation by major classes were as follows:

	Investment, at cost	Accumulated depreciation	Net investment December 31	
	December 31, 1976		1976	1975
	(in thousands of dollars)			
System, excluding Montreal Extension:				
Land	$ 2,921		$ 2,921	$ 2,375
Rights-of-way	14,831	$ 4,581	10,250	9,496
Pipe line	584,150	213,403	370,747	372,299
Pumping equipment, buildings and tanks	233,529	74,433	159,096	163,299
Construction in progress	10,871	—	10,871	18,914
Montreal Extension	239,682	6,819	232,863	144,915
	$1,085,984	$299,236	$786,748	$711,298

The Montreal Extension was placed in service June 3, 1976 but final line inspection, land restoration and clean-up work still remains to be completed. The total cost of the Extension is now estimated to be $247,000,000 and in accordance with terms of the Deficiency Agreement will be financed entirely by issuance of Interprovincial's debentures. The Series D and E sinking fund and serial debentures totalling $200,000,000 have been issued and a final issue will be made in 1977 (Note 6).

It is estimated that 1977 capital expenditures, excluding the Montreal Extension, will amount to approximately $19,000,000 and will be financed by funds generated within the companies.

6. Long Term Debt:

Long Term Debt (excluding current portion) outstanding at December 31 was as follows: (in thousands of dollars)

	1976	1975
Interprovincial Pipe Line Limited		
First Mortgage and Collateral Trust Bonds—		
Series E—5½% due April 1, 1985	$ 7,630	$ 8,230
Sinking Fund Debentures (unsecured)—		
Series A—6% due November 1, 1986	23,800	25,200
B—9⅜% due December 1, 1990	52,800	55,200
C—8⅛% due May 1, 1993	48,000	50,000
D—10⅜% due July 15, 1996	75,000	75,000
E—10⅞% due February 1, 1996	75,000	—
Serial Debentures (unsecured)—		
Series D—9¼%, $5,000 due annually July 15, 1977-1981	20,000	25,000
E—9⅞%, $5,000 due annually February 1, 1977-1981	20,000	—
Bank Loans (unsecured)—		
Interim financing—repaid February 2, 1976	—	23,500
Interim financing	39,400	—
Lakehead Pipe Line Company, Inc.		
Sinking Fund Debentures (guaranteed by Interprovincial)—		
Series A—6½% due August 1, 1992 (1976—$24,384 U.S.; 1975—$26,700 U.S.)	26,252	28,745
B—7⅛% due April 15, 1993 (1976—$65,435 U.S.; 1975—$70,762 U.S.)	70,455	76,191
C—7.60% due June 15, 1997 ($30,000 U.S.)	29,522	29,522
	$487,859	$396,588

Pending the sale of additional debentures to complete the Montreal Extension financing Interprovincial has arranged interim bank financing until April 30, 1977 of $45,000,000 (including $39,400,000 outstanding at December 31, 1976) at the prime rate plus a standby fee of ½% on the unused portion of the credit.

The First Mortgage and Collateral Trust Bonds of Interprovincial are secured by charges on all its assets; no further Bonds may be issued.

Principal repayments required on Long Term Debt for the years 1978 through 1981 are $20,727,000, $22,849,000, $24,472,000 and $24,472,000 respectively.

Long Term Debt payable in U.S. currency translated at historical rates of exchange amounts to $126,229,000. At the December 31, 1976 rate of exchange this debt would be $120,921,000.

7. Capital Stock:

Supplementary Letters Patent dated April 20, 1976 increased Interprovincial's authorized capital to $200,000,000 divided into 100,000,000 Class A convertible common shares of $1 par value and 100,000,000 Class B convertible common shares of $1 par value.

Each class of share is voting, convertible into the other on a share-for-share basis and ranks equally with respect to dividends and in all other respects except that, in declaring dividends on Class B shares, the Directors may provide that such dividends be paid out of either or both tax-paid undistributed surplus on hand or 1971 capital surplus on hand, both as defined in the Income Tax Act of Canada. If a dividend is declared on the Class A shares, the Directors must declare an equivalent dividend on the Class B shares. If a dividend on the Class B shares is declared payable out of tax-paid undistributed surplus on hand, the equivalent dividend will be 85% of the dividend declared on the Class A shares in order to recognize the 15% tax paid to create such surplus.

Share purchase warrants which entitled the holders to purchase capital stock of Interprovincial for $17 per share expired November 1, 1976. During the year 295 warrants were exercised for a total cash consideration of $5,000.

Under the Employee Incentive Stock Option Plan options may be granted to full-time employees to purchase shares of capital stock at not less than 90% of market value of the shares on the day that an option is granted. During 1976 no options were granted or exercised. At December 31, 1976 options were outstanding on a total of 114,525 shares at prices ranging from $17 to $25.80 per share exercisable over varying periods up to April 1981.

Outstanding options include 25,500 shares to officers, including two directors who are full-time employees. At year end 55,500 shares were available for future grants.

8. Canadian Anti-Inflation Legislation:

As Interprovincial is listed on a Canadian stock exchange dividend increases are subject to Regulations under the Anti-Inflation Act.

9. Remuneration of Directors and Officers:

In 1976 aggregate remuneration of eleven directors, two of whom were not paid as directors, was $43,000. Aggregate remuneration of four officers was $246,000. Two officers were also directors. No director or officer received remuneration from any subsidiary.

10. Kitimat Pipeline Project:

Interprovincial is one of six participants in the Kitimat Pipeline Project which has filed an application with the National Energy Board for permission to construct a 760-mile, 30-inch pipe line from Kitimat, British Columbia to Edmonton, Alberta. The project is currently estimated to cost about $500,000,000 and it is proposed that this amount will be financed on a 90% debt and 10% equity basis. Interprovincial is entitled to a 15% equity participation in the project and in addition would assume a guarantee of a like percentage of any cash deficiency including principal and interest payments of the debt.

Interprovincial Pipe Line Limited
and subsidiary companies

Ten Year Review

Financial (in thousands of dollars except per share amounts)	1976
Income—Transportation revenue	$ 196,712
—Deficiency Agreement	$ 20,209
—Other income	$ 3,725
Expenses—Operating—power and fuel	$ 30,902
—other	$ 30,924
—Property and other taxes	$ 12,675
—Depreciation	$ 32,224
—Interest	$ 34,399
Income taxes	$ 40,407
Earnings	$ 39,115
per share, weighted average	$ 1.53
Dividends paid	$ 30,688
per share	$ 1.20
percentage of earnings	78%
Working capital (deficit)	$ 11,499
Funds provided from operations	$ 87,876
Additions to pipe line system	$ 113,587
Investment in pipe line system (cost)	$1,085,984
Long term debt	$ 487,859
Statistical	
Shares outstanding at year end (thousands)	25,574
Percentage of shares registered in Canada	93%
Shareholders at year end	20,359
Number of employees at year end	790
Investment in pipe line system, per employee	$1,375,000
Receipts (b/d)—Alberta	873,220
—Saskatchewan	145,968
—Manitoba	11,215
—Ontario	1,556
—United States	166,712
	1,198,671
Deliveries (b/d)	
Canada—Western Canada	123,510
—Ontario	527,536
—Quebec	83,723
	734,769
United States—Minnesota-Wisconsin	172,004
—Illinois-Indiana	24,971
—Michigan-Ohio	120,857
—New York-Pennsylvania	131,050
	448,882
	1,183,651
Barrel miles (millions)	579,436
Average mileage per barrel delivered	1,338
Average transportation revenue (including Deficiency Agreement)	
—per barrel	50.1¢
—per 100 barrel miles	3.74¢

1975	1974	1973	1972	1971	1970	1969	1968	1967
194,715	192,944	202,831	164,207	144,393	133,707	114,465	105,532	92,893
—	—	—	—	—	—	—	—	—
2,300	2,074	2,461	1,689	2,871	1,643	994	1,049	1,548
27,550	31,603	30,699	18,735	13,213	11,186	11,053	12,514	9,432
26,491	27,277	22,075	18,088	17,176	16,164	14,841	13,282	13,271
12,588	11,218	8,415	9,612	8,814	9,643	8,338	5,789	4,636
24,889	24,044	21,803	19,674	18,115	17,519	16,070	13,677	12,683
23,273	24,724	21,481	19,010	18,890	18,810	13,898	8,608	5,697
43,323	40,567	53,034	40,693	35,416	32,531	26,833	29,377	26,197
38,901	35,585	47,785	40,084	35,640	29,497	24,426	23,334	22,525
1.52	1.39	1.87	1.57	1.40	1.16	0.96	0.92	0.89
30,688	30,688	28,127	23,976	21,892	20,352	18,316	18,316	18,315
1.20	1.20	1.10	0.94	0.86	0.80	0.72	0.72	0.72
79%	86%	59%	60%	61%	69%	75%	78%	81%
(22,575)	(16,695)	(4,800)	(707)	(818)	31,848	(10,490)	(14,122)	(10,277)
78,859	69,193	84,230	70,510	61,719	52,825	49,137	45,864	39,053
151,202	31,192	94,056	66,022	44,783	17,795	70,595	114,189	76,721
978,725	828,725	801,416	708,688	646,172	602,312	587,340	518,799	405,657
396,588	296,554	315,874	282,142	264,279	292,829	265,184	223,470	141,191
25,573	25,573	25,573	25,527	25,476	25,443	25,439	25,439	25,439
95%	94%	94%	94%	93%	93%	92%	91%	90%
21,010	20,423	19,621	18,864	19,576	21,066	21,996	21,486	18,321
755	751	730	706	677	641	603	562	621
1,296,000	1,103,000	1,098,000	1,004,000	954,000	940,000	974,000	923,000	653,000
924,151	1,059,695	1,134,985	877,474	743,411	659,382	542,093	475,437	386,331
148,053	192,951	217,423	217,768	217,034	224,890	225,755	236,613	239,466
12,215	13,193	14,216	14,931	15,575	16,452	17,489	17,524	15,863
1,596	842	4,134	3,196	2,751	817	550	205	—
76,393	42,241	11,123	8,440	3,228	2,579	—	—	3,502
1,162,408	1,308,922	1,381,881	1,121,809	981,999	904,120	785,887	729,779	645,162
137,479	155,755	147,033	115,939	116,163	116,386	111,504	106,832	107,050
510,167	524,805	467,893	414,305	390,798	380,570	351,270	338,624	317,969
—	—	—	—	—	—	—	—	—
647,646	680,560	614,926	530,244	506,961	496,956	462,774	445,456	425,019
166,274	169,435	195,467	175,534	159,142	142,686	135,451	116,196	97,371
81,782	164,324	229,302	145,397	89,309	49,836	—	—	—
141,311	165,119	200,978	142,973	120,098	121,822	105,540	96,847	60,344
123,185	127,639	136,742	121,365	101,840	89,619	72,206	58,228	54,556
512,552	626,517	762,489	585,269	470,389	403,963	313,197	271,271	212,271
1,160,198	1,307,077	1,377,415	1,115,513	977,350	900,919	775,971	716,727	637,290
581,850	668,864	707,037	573,456	488,862	444,318	366,287	337,978	289,691
1,374	1,402	1,406	1,405	1,370	1,351	1,293	1,288	1,245
46.0	40.4	40.3	40.2	40.5	40.7	40.4	40.2	39.9
3.35	2.88	2.87	2.86	2.95	3.01	3.13	3.12	3.21

Corporate Information

EXECUTIVE OFFICE
7 King Street East
Toronto, Ontario M5C 1A2

HEAD OFFICE AND OPERATING HEADQUARTERS
10015 - 103 Avenue
Edmonton, Alberta T5J 2J9

STOCK TRANSFER AGENTS
The Royal Trust Company - Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton, Vancouver

Chemical Bank, New York

(Change of address should be sent to the closest branch of the Transfer Agents)

STOCK REGISTRARS
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DIVIDEND DISBURSING AGENT
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Toronto, Ontario M5W 1P9

TRUSTEE AND REGISTRAR FOR FIRST MORTGAGE AND COLLATERAL TRUST BONDS
The Royal Trust Company
Toronto and Montreal

TRUSTEE AND REGISTRAR FOR SERIAL AND SINKING FUND DEBENTURES
Montreal Trust Company
Montreal, Toronto, Winnipeg, Edmonton and Vancouver

LISTING OF STOCK
Toronto and Montreal Stock Exchanges

AUDITORS
Price Waterhouse & Co.
Edmonton, Alberta

PRINTED IN CANADA

Deficiency Agreement the Canadian Government will pay us the difference between the actual cost of operating the Montreal Extension, including depreciation and interest, and the revenue produced by the 5¢ per barrel additive from Sarnia included in the 60¢ per barrel tariff from Edmonton.

Rate Hearing

The hearing announced by the National Energy Board in April 1975 to determine whether the tolls charged by Interprovincial in Canada are just and reasonable has now been scheduled to commence on September 21. The additional information requested by the Board has taken months to prepare and it has been necessary to update our original submission.

Construction

The installation of 69 miles of 30-inch loops between Chicago and Sarnia is well under way and should be completed by the end of September. These loops, together with the four additional electric pumping units that are being installed, will increase the capacity of this section of the system by 125,000 b/d to 740,000 b/d.

Kitimat Pipe Line

Kitimat, B.C. rather than Prince Rupert has emerged as the preferred site for the receiving terminal for the proposed pipe line from the West Coast to Edmonton and work on the project has progressed to the point where the ten company consortium studying the feasibility of the line has announced its intention to proceed with the preparation of an application to the National Energy Board for permission to construct the line. The line would be 760 miles long versus 810 miles from Prince Rupert and if constructed of 30-inch pipe would cost in the order of $500 million.

Dividend

On July 28 a quarterly dividend of 30¢ per share on the Class A shares and 25½¢ tax paid per share on the Class B shares was declared payable September 1 to shareholders of record August 11, 1976.

Toronto, Ontario
August 6, 1976

D. G. WALDON
President

DELIVERIES (barrels per day)

	1976	1975
First Quarter - - - -	1,090,810	1,165,531
Second Quarter - - -	1,130,025	1,063,050
Third Quarter - - - -	—	1,207,079
Fourth Quarter- - - -	—	1,204,194

PRINTED IN CANADA

INTERPROVINCIAL PIPE LINE LIMITED
QUARTERLY REPORT FOR SIX MONTHS ENDED JUNE 30, 1976

Interprovincial Pipe Line Limited

and subsidiary companies

REPORT FOR SIX MONTHS ENDED JUNE 30, 1976

TO THE SHAREHOLDERS:

Throughput

Deliveries of crude oil, natural gas liquids and refined products during the first half of 1976 averaged 1,110,418 barrels per day as compared to 1,114,007 b/d during the same period in 1975. As shown in the table below, the decline in deliveries of Canadian crude in the United States was largely offset by increased receipts of U.S. domestic and offshore crudes.

	First six months	
	1976	1975
DELIVERIES (barrels per day)		
Canada		
Prairie Provinces - -	124,798	131,782
Ontario - - - - -	518,128	514,126
Montreal - - - - -	8,189	—
Total Canada - -	651,115	645,908
United States		
Canadian crude - -	314,154	392,212
U.S. domestic and offshore - -	145,149	75,887
Total U.S. - - -	459,303	468,099
Total Deliveries - - -	1,110,418	1,114,007
BARREL MILES (millions) -	263,683	279,793

Montreal Extension

The final "leave to open" was issued by the National Energy Board on June 3 and the first delivery of oil to a Montreal refinery was made on June 6. Continuous deliveries did not commence until June 15, however. The current rate is 100,000 b/d but deliveries are expected to increase to 250,000 b/d during the fourth quarter of 1976. Due to the continuing unusually wet weather, considerable clean-up and land restoration work remains to be done. The delays are proving expensive and the final cost of the extension will be approximately $240 million. This will require an additional debenture issue in the fall.

Until such time as the National Energy Board has ruled on our tolls, our tariffs to Montreal are to be the same as the corresponding rates to Toronto;

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited, $000's omitted)

	Six months ended June 30	
	1976	1975
INCOME		
Transportation revenue -	$90,873	$89,662
Deficiency agreement - -	2,478	—
Other income - - - - -	1,945	836
	$95,296	$90,498
EXPENSES		
Operating—power and fuel	$13,630	$13,136
—other - - -	14,188	12,423
Property and other taxes -	6,510	6,293
Depreciation - - - - -	13,429	12,264
Interest - - - - - -	12,273	11,801
Foreign exchange - - -	(769)	330
	$59,261	$56,247
Earnings before income taxes	36,035	34,251
Provision for income taxes -	18,244	18,714
Earnings for the period - -	$17,791	$15,537
Earnings per share - - -	70¢	61¢

The increase in earnings, despite a reduction in throughput, is attributable to the tariff increase effective April 1, 1975 and the foreign exchange gain due to the currently strong Canadian dollar.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited, $000's omitted)

	Six months ended June 30	
	1976	1975
SOURCE OF FUNDS:		
Earnings for the period - -	$ 17,791	$ 15,537
Depreciation - - - - -	13,429	12,264
Deferred income taxes - -	10,350	6,351
Bank loans - - - - - -	17,300	42,600
Debentures issued - - -	100,000	—
Other transactions - - -	490	240
	$159,360	$ 76,992
USE OF FUNDS:		
Dividends paid - - - -	$ 15,344	$ 15,344
Capital expenditures - -	88,166	49,833
Cost of issuing debentures -	1,381	—
Long term debt reductions		
—Bank loans - - - -	38,900	—
—Bonds & debentures -	14,651	5,582
	$158,442	$ 70,759
Change in Working Capital	$ 918	$ 6,233